

ORIGINAL



0000027823

MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

for

DATE: December 12, 2005

RE: STAFF REPORT FOR CLEAR SPRINGS UTILITY CO., INC.'s - WATER  
DIVISION RATE INCREASE APPLICATION (DOCKET NO. W-01689A-05-0629)

Attached is the Staff Report for Clear Springs Utility Co., Inc's. - Water Division application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

EGJ:ENZ:rdp

Originator: Elena Zestrijan

Attachment: Original and sixteen Copies

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Service List for: Clear Springs Utility Co., Inc. – Water Division  
Docket No. W-01689A-05-0629

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**CLEAR SPRINGS UTILITY CO., INC. – WATER DIVISION**

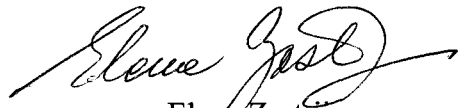
**DOCKET NO. W-01689A-05-0629**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**


**DECEMBER 12, 2005**

## STAFF ACKNOWLEDGMENT


The Staff Report for Clear Springs Utility Co., Inc. – Water Division (“Company”), Docket No. W-01689A-05-0629 was the responsibility of the Staff members listed below. Elena Zestrijan was responsible for the review and analysis of the Company’s application, recommended revenue requirements, rate base, and rate design. Daniel Zivan was responsible for the evaluation of the Company’s financing application and recommendations. Dorothy Hains was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Arizona Corporation Commission’s (“Commission”) records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.




Elena Zestrijan  
Public Utilities Rate Analyst III



Daniel Zivan  
Public Utilities Rate Analyst III



Dorothy Hains  
Utilities Engineer



Richard Martinez  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY**  
**CLEAR SPRINGS UTILITY CO., INC. – WATER DIVISION**  
**DOCKET NO. W-01689A-05-0629**

The Company's rate application proposes an increase in revenues of \$59,619 or a 39.01 percent increase over adjusted test year revenues of \$152,818. The Company proposed rates will produce revenues of \$212,437, and an operating income of \$35,918, for a 28.50 percent rate of return on an original cost rate base ("OCRB") of \$126,030. The Company's proposed rates would increase the typical residential bill with a median usage of 3,736 gallons from \$16.41 to \$18.41 for an increase of \$2.00 or 12.19 percent.

Staff is recommending an increase in revenues of \$30,085 or a 19.69 percent increase over adjusted test year revenues of \$152,818. Staff's recommended rates will produce revenues of \$182,903, and operating income of \$25,319, for a 24.45 percent rate of return on an OCRB of \$103,534. Staff utilized the resultant 13.84 percent operating margin as its target in order to allow the Company enough funds for operations, financing and contingencies. Staff's recommended rates would not change the typical residential bill of \$16.41, with a median usage of 3,736 gallons.

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### Attachments

Financing Report

Engineering Report

**FACT SHEET**

Current rates: Decision No. 62583, dated May 17, 2000.

Type of ownership: Arizona "S" Corporation

Location: The Company is located in Sunsites, Arizona approximately 26 miles south of Wilcox along highway 191 in Cochise County. The Company serves approximately 540 customers within a certificated area within Cochise County. The water system is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area ("AMA").

**Rates:**

Permanent rate increase application filed: August 29, 2005

Current test year ended: December 31, 2004

Prior test year ended: December 31, 1998

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 5/8 x 3/4 - inch meter Residential Customers	\$ 9.50	\$11.50	\$11.00
Gallons included in Minimum	0	0	0
Commodity Charge			
Excess of minimum, per 1,000 gallons:	\$1.85	N/A	N/A
From 0 to 10,000 gallons	N/A	\$1.85	N/A
From 0 to 3,000 gallons	N/A	N/A	\$1.25
Over 10,000 gallons	N/A	\$2.95	N/A
From 3,001 to 10,000 gallons	N/A	N/A	\$2.25
Over 10,000 gallons	N/A	N/A	\$3.50
Typical residential bill (Based on median usage of 3,736 gallons)	\$16.41	\$18.41	\$16.41

**Customers:**

Average number of customers in current test year: 540

Average number of customers in the prior test year: 496

Current Test Year customers by meter size:

5/8 x 3/4 - inch	511
3/4 - inch	5
1-inch	14
1-1/5 -inch	7
2-inch	2
3-inch	1

**Complaints:**

Numbers of customers concerns since rate application filed: 1

Percentage of complaints to customer base: 0.2 percent

**Notification:**

Customer notification was mailed on June 2, 2005.



### **Summary of Filing**

Based on test year results as adjusted by Utilities Division Staff ("Staff"), Clear Springs Utility Co., Inc. ("Company") suffered an operating loss of \$36 on an original cost rate base ("OCRB") of \$103,534 for no rate of return as shown on Schedule 1.

The Company's proposed rates would produce operating revenues of \$212,437 and an operating income of \$35,918, for a 28.50 percent rate of return on an OCRB of \$126,030. The Company's proposed rates would increase the typical residential bill with a median usage of 3,736 gallons from \$16.41 to \$18.41, for an increase of \$2.00 or 12.19 percent.

Staff's recommended rates would produce operating revenues of \$182,903 and an operating income of \$25,319, for a 24.45 percent rate of return on an OCRB of \$103,534. Staff utilized the resultant 13.84 percent operating margin as its target in order to allow the Company enough funds for operations, financing and contingencies. Staff's recommended rates would not change the typical residential bill with a median usage of 3,736 gallons and would remain at \$16.41.

### **Background**

On August 29, 2005, the Company filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission") utilizing a test year ending December 31, 2004. On September 28, 2005, the application was deemed sufficient. The Company served approximately 540 customers in the test year.

The Company indicated that a rate increase is needed due to high costs relating to the maintenance and repairs of the infrastructure. It also contends that operating expenses have not allowed the Company to earn a fair rate of return.

### **Consumer Services**

A review of Consumer Services' records show that the Company was granted a Certificate of Convenience and Necessity per Decision No. 32227 dated May 25, 1960.

The record also reflects no complaints or inquiries in the test year. There were two inquiries, one in 2003 regarding approved rates and tariffs and one in 2005 regarding new service charges.

A review of the Commission's records found that the Company's cross-connection/backflow tariff was approved on July 20, 1994, in Decision No. 58698.

### **Engineering Analysis**

A complete discussion of Staff Engineering's findings, recommendations, and description of the water system is provided in the attached Engineering Report.

### **Financing**

Please refer to Financing Report attached.

### **Compliance**

The Company is current on its property and sales tax payments.

Staff performed a regulatory audit of the Company's books and records. The Company is using the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") as ordered by this Commission in Decision No. 62977, dated November 1, 2000.

The Company is not within an AMA, and is not subject to the ADWR monitoring and reporting requirements.

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") to 10 µg/l. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis by the Company is in compliance with Arizona Department of Environmental Quality ("ADEQ") water quality standards and delivering water that meets water quality standards required by Arizona Administrative Code Title 18, Chapter 4. (See §G of Engineering Report for discussion and details).

### **Rate Base**

As shown on Schedule 2, page 1, Staff recommends a rate base of \$103,534. This rate base represents a decrease of \$22,496 from the Company's proposed \$126,030 rate base, due to Staff's adjustment to reflect plant in service consistent with Decision No. 62583 and certain other adjustments as explained on Schedule 2, page 2 of 3.

Accumulated depreciation was calculated by adding depreciation expense at the 5 percent approved rate for the intervening years to the approved balance in Decision No. 62583 of \$530,004. This account was also decreased for plant retirements. The Company's truck was traded in for \$6,500 which was applied towards owner's personal vehicle. Staff decreased accumulated depreciation by \$1,308 as shown on Schedule 2, page 3 of 3.

Adjustment C as shown in Schedule 2, page 1, reflects an increase in operating and maintenance cash working capital component of \$57 due to Staff adjustments to operating expenses.

### **Operating Revenues**

Staff made no adjustment to the Company's test year operating revenue of \$152,818. (Schedule 3, Page 1 of 4).

### **Operating Expenses**

Staff adjustments to operating expenses resulted in a decrease of \$23,666 from \$176,519 to \$152,854, as shown on Schedule 3, page 1 of 2. The adjustments are discussed below.

Adjustment A - Water Testing - to reflect Staff Engineer's recommended expense level of \$5,606.

Adjustment B - Transportation Expense - reflects Staff's removal of repairs and maintenance of vehicles. The Company's transportation expense is based on a per mile allowance.

Adjustment C is a combination of Staff's adjustments to plant in service and Staff's recommended depreciation rates. On a going forward basis, many plant in service items became fully depreciated at the end of the test year.

Adjustment D corrects the property tax calculation based on Staff's use of the Arizona Department of Revenue ("ADOR") formula.

### **Revenue Requirements**

The Company is proposing an increase in revenues of \$59,619 or 39.01 percent over adjusted test year revenues of \$152,818. This increase would result in a rate of return of 28.50 percent.

Staff is recommending an increase in revenues of \$30,085 or 19.69 percent over adjusted test year revenues of \$152,818. The Staff recommended increase would result in a rate of return of 24.45 percent. Staff utilized the resultant 13.84 percent operating margin as its target in order to allow the Company enough funds for operations, financing and contingencies.

### **Rate Design**

The Company's current rate structure consists of no block tiers in the commodity rates and no gallons included in the monthly minimum charge. The Company proposes two tiers and

no gallons included in the monthly minimum charge. Staff recommends a rate design consisting of three inverted block tiers and no gallons included in the monthly minimum charge. The Company proposed a first tier break at the 10,000 gallon level and the second tier applies to consumption in excess of 10,000 gallons.

Staff recommends, a first tier break at the 3,000 gallon level, second tier break at 10,000 gallons, and the third tier applies to consumption in excess of 10,000 gallons.

The residential customer class served through a 5/8 x 3/4-inch and 3/4 inch meters used 84 percent of the total water sold. The 1, 1-1/2, 2 and 3-inch meter customer class consumed 16 percent of the total water sold. Consequently, Staff's recommended rate structure was designed recommending three tiers for the 5/8 x 3/4 and 3/4 -inch meter, and two tiers for all other, larger size meters.

### **Staff Recommendations**

Staff recommends approval of its recommended rates and charges as presented on Schedule 4 of this Report.

Staff further recommends authorization for the Company to issue long-term debt to the Water Infrastructure Financing Authority ("WIFA") in an amount not to exceed \$40,640.

Staff further recommends that the Commission order the Company to file a plan that is satisfactory to Staff, by April 30, 2006, to increase its equity to 40 percent of total capital.

Staff further recommends that the Company take action to resolve the storage deficiencies of Systems PWS # 02-050 and PWA # 02-048 prior to filing its next rate application. (See §C of the Engineering Report for discussion and details).

Staff further recommends that the Company use depreciation rates by individual NARUC category, as delineated in Exhibit 6, Engineering Report, in the future. These rates should be used to calculate the annual depreciation expense for the Company in this application. (See §K and Exhibit 6 for a discussion and a tabulation of the recommended rates).

Staff further recommends approval of meter and service line installation charges as shown in Table 8 of the Engineering Report. (See §M of report for discussion and details).

Staff recommends that the Company reduce its water loss to 10% or less in PWS #02-008 before filing its next rate case, in the alternative the Company shall demonstrate why it is not reasonable or economical to reduce water loss to 10% or less. (See §E of the Engineering Report for discussion and details).

Staff further recommends that the Company install a well meter on each system within 12 months of the effective date of the decision in this matter. Staff further recommends that the

Company file within 14 months of the effective date of the decision in this matter with Docket Control, as a compliance item, documents showing that the required well meters have been installed. Staff recommends that 1-inch well meters be utilized (See §M of the Engineering Report for discussion and details).

Staff recommends that the Company record as a note receivable, from its owner the trade-in value of the Company's truck in the amount of \$6,500 that was used towards the purchase of his personal vehicle.

Staff further recommends that the Company file with the Commission Docket Control as a compliance item, a tariff schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that, in addition to the collection of the Company's regular rates and charges, the Company shall collect from its customers their proportionate share of any privilege, sales or use tax as provided for in A.A.C. R14-2- 409(D).

## SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$150,137	\$150,137	\$209,756	\$180,222
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	2,681	2,681	2,681	2,681
<b>Total Operating Revenue</b>	<b>\$152,818</b>	<b>\$152,818</b>	<b>\$212,437</b>	<b>\$182,903</b>
Operating Expenses:				
Operation and Maintenance	\$136,248	\$136,710	\$136,248	\$136,709
Depreciation	30,052	7,425	30,052	7,425
Property & Other Taxes	10,219	8,719	10,219	13,450
Income Tax	0	0	0	0
<b>Total Operating Expense</b>	<b>\$176,519</b>	<b>\$152,854</b>	<b>\$176,519</b>	<b>\$157,584</b>
<b>Operating Income/(Loss)</b>	<b>(\$23,701)</b>	<b>(\$36)</b>	<b>\$35,918</b>	<b>\$25,319</b>
Rate Base O.C.L.D.	\$126,030	\$103,534	\$126,030	\$103,534
Rate of Return - O.C.L.D.	-18.81%	-0.03%	28.50%	24.45%
Operating Margin	-15.51%	-0.02%	16.91%	13.84%

### RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$925,971	(\$23,861)	A	\$902,110
Less:				
Accum. Depreciation	758,249	(1,308)	B	756,941
<b>Net Plant</b>	<b>\$167,722</b>	<b>(\$22,553)</b>		<b>\$145,169</b>
Less:				
Plant Advances (Meter Deposits)	\$64,182	\$0		64,182
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$64,182</b>	<b>\$0</b>		<b>\$64,182</b>
Contributions Gross	\$226,579	\$0		\$226,579
Less:				
Amortization of CIAC	226,579	0		226,579
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$64,182</b>	<b>\$0</b>		<b>\$64,182</b>
Plus:				
1/24 Power	\$1,384	\$0		\$1,384
1/8 Operation & Maint.	12,878	57	C	12,934
Inventory	8,228	0		8,228
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$22,490</b>	<b>\$57</b>		<b>\$22,547</b>
<b>Rate Base</b>	<b>\$126,030</b>	<b>(\$22,496)</b>		<b>\$103,534</b>

*Explanation of Adjustment:*

- A See Schedule 2 Page 2 of 3.
- B Off-set to accumulated depreciation, vehicle trade-in value.
- C See Schedule 2 Page 3 of 3.
- D Based on Staff's adjustments to operating expenses.

# PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$1,625	\$0	\$1,625
302 Franchises	0	0	0
303 Land & Land Rights	210	0	210
304 Structures & Improvements	29,171	(606) A	28,565
307 Wells & Springs	164,466	(1,258) B	163,208
311 Pumping Equipment	126,250	(4,991) C	121,259
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	111,844	0	111,844
331 Transmission & Distribution Mains	291,711	0	291,711
333 Services	97,231	0	97,231
334 Meters & Meter Installations	64,639	1,967 D	66,606
335 Hydrants	9,850	0	9,850
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	3,274	0	3,274
341 Transportation Equipment	18,973	(18,973) E	0
343 Tools Shop & Garage Equipment	6,727	0	6,727
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$925,971</b>	<b>(\$23,861)</b>	<b>\$902,110</b>

*Explanation of Adjustment:*

- A To record Structures & Improvements as reflected in Decision No. 62583.
- B To record Wells and Springs as reflected in Decision No. 62583  
and Staff Engineers recommended removal of not used or usefull well # 6.
- C To record Pumping Equipment as reflected in Decision No. 62583.
- D To record Meter and Meter Installations as reflected in Decision No. 62583  
and Staff Engineers recommended installation of 1 inch meters on each system.
- E To remove truck traded, in the amount of \$6,500 for a personal vehicle.  
Trade-in occurred in 2001, entry was not recorded on Company's books.



## ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$758,249
Accumulated Depreciation - Per Staff	756,941 A
<b>Total Adjustment</b>	<b><u>(\$1,308)</u></b>

*Explanation of Adjustment:*

A -	Accumulated Depreciation per Decision No. 62977	530,004
	1999 Depreciation Expense	37,258
	2000 Depreciation Expense	38,570
	2001 Depreciation Expense	36,966
	2001 Retirements	(21,996)
	2001 Trade-in value vehicle	6,500
	2002 Depreciation Expense	40,987
	2003 Depreciation Expense	42,603
	2004 Depreciation Expense	38,467
*	2004 Depreciation Expense	<u>7,582</u>
	Total Accumulated Depreciation	<u>\$ 756,941</u>

\* Staff adjusted for the plant fully depreciated  
in 2005 so going forward the Company will not over earn.

## STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$150,137	\$0	\$150,137
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	2,681	0	2,681
<b>Total Operating Revenue</b>	<b>\$152,818</b>	<b>\$0</b>	<b>\$152,818</b>
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	33,227	0	33,227
618 Chemicals	90	0	90
620 Repairs and Maintenance	2,047	0	2,047
621 Office Supplies & Expense	4,838	0	4,838
630 Outside Services	79,905	0	79,905
635 Water Testing	3,126	2,480 A	5,606
641 Rents	0	0	0
650 Transportation Expenses	7,787	(2,019) B	5,768
657 Insurance - General Liability	5,228	0	5,228
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	30,052	(22,627) C	7,425
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	10,219	(1,500) D	8,719
409 Income Tax	0	0	0
<b>Total Operating Expenses</b>	<b>\$176,519</b>	<b>(\$23,666)</b>	<b>\$152,853</b>

<b>OPERATING INCOME/(LOSS)</b>	<b>(\$23,701)</b>	<b>\$23,666</b>	<b>(\$35)</b>
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Other Income/(Expense):

419 Interest and Dividend Income	\$4	\$0	\$4
421 Non-Utility Income	0	0	0
424 WIFA Loan Payment	0	0	0
427 Interest Expense	4,822	0	4,822
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	424	0	424

<b>Total Other Income/(Expense)</b>	<b>(\$5,242)</b>	<b>\$0</b>	<b>(\$5,242)</b>
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<b>NET INCOME/(LOSS)</b>	<b>(\$28,943)</b>	<b>\$23,666</b>	<b>(\$5,277)</b>
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### STAFF ADJUSTMENTS

A	WATER TESTING - Per Company	\$3,126	
	Per Staff	<u>5,606</u>	<u>\$2,480</u>

To adjust to Staff Engineer's recommended expense level of \$ 5,606.

B	TRANSPORTATION EXPENSE - Per Company	7,787	
	Per Staff	<u>5,768</u>	<u>(\$2,019)</u>

To remove additional transportation expense pertaining to repairs and maintenance of personal vehicles and to record actual mileage expense incurred.

C	DEPRECIATION - Per Company	\$30,052	
	Per Staff	<u>7,425</u>	<u>(\$22,627)</u>

*Explanation of Adjustment:*

**Pro Forma Annual Depreciation Expense:**

Plant in Service	\$902,111
Less: Non Depreciable Plant	1,835
Fully Depreciated Plant	<u>725,178</u>
Depreciable Plant	\$175,098
Times: Staff Proposed Depreciation Rate	<u>4.24%</u>
<b>Pro Forma Annual Depreciation Expense</b>	<u><u>\$7,425</u></u>

D	PROPERTY TAX - Per Company	\$10,219	
	Per Staff	<u>8,719</u>	<u>(\$1,500)</u>

To correct property tax calculation.

Clear Springs Utility Co. Inc.  
Docket No. W-01689A-05-0629  
Test Year Ended December 31, 2004

## RATE DESIGN

Schedule 4  
Page 1 of 2

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$ 9.50	\$ 11.50	\$ 11.00
3/4" Meter	13.00	15.00	14.50
1" Meter	23.00	25.00	23.25
1½" Meter	44.00	45.00	44.00
2" Meter	69.00	69.00	66.00
3" Meter	128.00	150.00	125.50
4" Meter	210.00	250.00	250.00
5" Meter	N/A	N/A	N/A
6" Meter	420.00	500.00	500.00
Gallons included in the minimum:	0	0	0
<b>Commodity Rate:</b>			
<b><u>5/8 x 3/4 Inch Meters</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.85	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	\$ 1.85	N/A
Excess of Minimum - per 1,000 Gallons (0-3,000 Gallons)	N/A	N/A	\$ 1.25
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 2.95	N/A
Excess of Minimum - per 1,000 Gallons (3001-10,000 Gallons)	N/A	N/A	\$ 2.25
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	N/A	\$ 3.50
<b>Commodity Rate:</b>			
<b><u>3/4 Inch Meters</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.85	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	\$ 1.85	N/A
Excess of Minimum - per 1,000 Gallons (0-3,000 Gallons)	N/A	N/A	\$ 1.25
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 2.95	N/A
Excess of Minimum - per 1,000 Gallons (3001-10,000 Gallons)	N/A	N/A	\$ 2.25
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	N/A	\$ 3.50
<b>Commodity Rate:</b>			
<b><u>1" Meters</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.85	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	\$ 1.85	N/A
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 2.95	N/A
Excess of Minimum - per 1,000 Gallons (0-31,000 Gallons)	N/A	N/A	\$ 2.25
Excess of Minimum - per 1,000 Gallons (Over 31,000 Gallons)	N/A	N/A	\$ 3.50

Clear Springs Utility Co. Inc.  
Docket No. W-01689A-05-0629  
Test Year Ended December 31, 2004

## RATE DESIGN

Schedule 4  
Page 2 of 2

### Commodity Rate:

#### 1 1/2" Meters

Excess of Minimum - per 1,000 Gallons	\$ 1.85	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	\$ 1.85	N/A
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 2.95	N/A
Excess of Minimum - per 1,000 Gallons (0-56,000 Gallons)	N/A	N/A	\$ 2.25
Excess of Minimum - per 1,000 Gallons (Over 56,000 Gallons)	N/A	N/A	\$ 3.50

### Commodity Rate:

#### 2" Meters

Excess of Minimum - per 1,000 Gallons	\$ 1.85	N/A	N/A
Excess of Minimum - per 1,000 Gallons (0-10,000 Gallons)	N/A	\$ 1.85	N/A
Excess of Minimum - per 1,000 Gallons (Over 10,000 Gallons)	N/A	\$ 2.95	N/A
Excess of Minimum - per 1,000 Gallons (0-74,000 Gallons)	N/A	N/A	\$ 2.25
Excess of Minimum - per 1,000 Gallons (Over 74,000 Gallons)	N/A	N/A	\$ 3.50

### Commodity Rate:

#### 3" Meters - Bulk Water Sales

Excess of Minimum - per 1,000 Gallons	\$ 4.00	\$ 4.00	\$ 2.25
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### Service Line and Meter Installation Charges

5/8" x 3/4" Meter	\$ 450.00	\$ 550.00	\$ 550.00
3/4" Meter	450.00	550.00	550.00
1" Meter	550.00	650.00	650.00
1 1/2" Meter	775.00	875.00	875.00
2" Meter	1,305.00	1,400.00	1,400.00
3" Meter	1,850.00	1,900.00	1,900.00
4" Meter	2,860.00	3,200.00	3,200.00
6" Meter	5,275.00	5,800.00	5,800.00

### Service Charges

Establishment	\$25.00	\$35.00	\$30.00
Establishment (After Hours)	40.00	50.00	45.00
Reconnection (Delinquent)	25.00	35.00	30.00
Meter Test (If Correct)	40.00	50.00	45.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	20.00	25.00	25.00

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

# **TYPICAL BILL ANALYSIS**

General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 511

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	6,152	\$20.88	\$22.88	\$2.00	9.58%
Median Usage	3,736	\$16.41	\$18.41	\$2.00	12.19%
<u>Staff Proposed</u>					
Average Usage	6,152	\$20.88	\$21.84	\$0.96	4.60%
Median Usage	3,736	\$16.41	\$16.41	\$0.00	0.00%

## Present & Proposed Rates (Without Taxes) General Service 5/8 x 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$9.50	\$11.50	21.05%	\$11.00	15.79%
1,000	11.35	13.35	17.62%	12.25	7.93%
2,000	13.20	15.20	15.15%	13.50	2.27%
3,000	15.05	17.05	13.29%	14.75	-1.99%
4,000	16.90	18.90	11.83%	17.00	0.59%
5,000	18.75	20.75	10.67%	19.25	2.67%
6,000	20.60	22.60	9.71%	21.50	4.37%
7,000	22.45	24.45	8.91%	23.75	5.79%
8,000	24.30	26.30	8.23%	26.00	7.00%
9,000	26.15	28.15	7.65%	28.25	8.03%
10,000	28.00	30.00	7.14%	30.50	8.93%
15,000	37.25	44.75	20.13%	48.00	28.86%
20,000	46.50	59.50	27.96%	65.50	40.86%
25,000	55.75	74.25	33.18%	83.00	48.88%
50,000	102.00	148.00	45.10%	170.50	67.16%
75,000	148.25	221.75	49.58%	258.00	74.03%
100,000	194.50	295.50	51.93%	345.50	77.63%
125,000	240.75	369.25	53.37%	433.00	79.85%
150,000	287.00	443.00	54.36%	520.50	81.36%
175,000	333.25	516.75	55.06%	608.00	82.45%
200,000	379.50	590.50	55.60%	695.50	83.27%

**MEMORANDUM**

TO: Elena Zestrijan  
Public Utilities Analyst III  
Utilities Division

FROM: Daniel Zivan *HA*  
Public Utilities Analyst III *for*  
Utilities Division *DZ*

DATE: December, 12 2005

RE: CLEAR SPRINGS UTILITY COMPANY, INC.  
DOCKET NO. W-01689A-05-0629

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**Introduction**

On August 29, 2005, Clear Springs Utility Company, Inc. ("Clear Springs" or the "Company"), an Arizona for-profit corporation located in Tucson, Arizona, filed an application with the Arizona Corporation Commission ("Commission") requesting a permanent rate increase and authorization for financing for the purpose of funding water system plant improvements. Clear Springs is also requesting authorization to issue debt financing to the Water Infrastructure Financing Authority ("WIFA") in the amount of \$69,212.

**Notice**

Notice of a financing application was mailed to customers on August 26, 2005. The affidavit of mailing is attached along with a copy of the notice.

**Background**

Clear Springs is an Arizona for-profit corporation located in Tucson, Arizona that provides service to approximately 571 residential customers in Cochise County. Clear Springs' current rates were approved in Decision No. 62583 dated May 17, 2000.

**Purpose of Financing**

Clear Springs's \$69,212 request for Commission authorization to issue debt includes \$40,640 to replace a damaged pump in Well #16 and \$28,572 to recover costs that the Company incurred in 2004 to replace a damaged pump in Well #5. The source of the funds used to pay for the 2004 Well #5 repair was a \$20,000 short-term loan from Mr. E.H. Lewis, the president of Clear Springs and \$8,572 of cash available from operations. Effectively, Clear Springs proposes to refinance the outstanding balance of the short-term loan provided by Mr. Lewis by converting

it to third party long-term debt and to replenish its working capital by the \$8,572 used to pay for repairs.

### **Description of Proposed Financing**

Clear Springs proposes to borrow \$69,212 from WIFA. The proposed loan has a term of 20 years and an anticipated interest rate of 7.2 percent. WIFA's interest rate for Clear Springs represents the current prime rate (7.00 percent as of November 30, 2005) plus 200 basis points multiplied by .80.

### **Financial Analysis**

Schedule DTZ-1 presents four different combinations of selected financial information. The four scenarios reflect the outcomes of different amounts and types of capital recognized. A times interest earned ratio ("TIER") and a debt service coverage ratio ("DSC") is presented for each scenario using the operating income recommended by Staff in the accompanying rate case.

Scenario 1 in Column A reflects the Company's, as filed, existing capital structure. Scenario 2 in Column B reflects Staff's adjustments to the as filed capital structure resulting from Staff's rate case audit findings (a \$22,553 reduction to net plant, a \$6,500 equity draw and a \$16,736 reclassification from short-term debt to equity). Scenario 3 in Column C is the same as Column A with the addition of the Company's proposed \$69,212 (\$67,604 long-term and \$1,608 short-term) debt and repayment of the existing unauthorized \$16,738 short-term debt with a portion of the proceeds. Scenario 4 in Column D is the same as Column B with the addition of Staff recommended \$40,640 (\$39,696 short-term and \$944 short-term) debt.

Schedule DTZ-1 Scenarios 1 and 2 show that issuance of \$40,640 of debt as recommended by Staff would reduce equity as a percent of total equity from 32.1 percent to 23.4 percent. The resulting capital structure would be excessively leveraged and should be mitigated by application of appropriate conditions as recommended below. Staff's recommendation to authorize issuance of \$40,640 of debt is mandated by the need for capital to complete plant necessary to provision of adequate service. The additional \$28,572 (\$69,212 - \$40,640) debt authorization requested by the Company is unnecessary and therefore inappropriate in consideration of the Company's capital structure. An excessively leveraged capital structure restricts a utility's ability to obtain additional debt financing and may result in less favorable terms for future financing. Accordingly, the Company should prepare a capital plan to increase equity capital.

Scenarios 1 and 2 of Schedule DTZ-1 show that the operating income recommended by Staff in the rate case result in a 4.16 TIER and 3.96 DSC before recognition of any additional debt. Scenario 3 proposed by the Company would reduce the TIER and DSC to 2.06 and 2.04, respectively. Scenario 4 recommended by Staff would reduce the TIER and DSC to 2.60 and 2.55, respectively. A DSC of 2.55 demonstrates that Clear Springs would be able to meet its



current debt obligations as well as the obligations associated with Staff's recommended long-term debt in the amount of \$40,640 with Staff's recommended operating income. The pro forma capital structure resulting from issuance of Staff's recommended \$40,640 debt, conversion of the \$16,736 short-term debt to equity, a \$22,553 reduction to net plant and recognition of a \$6,500 equity draw is comprised of 2.0 percent short-term debt, 74.6 percent long-term debt and 23.4 percent equity.

TIER represents the number of times earnings cover interest expense on long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not mean that debt obligations cannot be met in the short term.

DSC represents the number of times internally generated cash will cover required principal and interest payments on long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

### **Compliance**

Clear Springs has no outstanding Commission compliance issues.

### **Engineering Analysis**

The Staff Engineering Report is attached. Staff reviewed the material cost estimates of the proposed plant improvements. Staff concludes that Clear Spring's \$67,712 cost estimate for the completed and to be completed plant improvements appears reasonable. Staff makes no "used and useful" determination in this proceeding. Treatment of the proposed plant improvements for rate-making purposes is deferred to a future rate proceeding.

### **Staff Conclusions and Recommendations**

Staff concludes that Clear Springs completed and to be completed plant improvements are appropriate and that the estimated costs are reasonable.

Staff recommends that the Commission deny Clear Springs' request to refinance the \$16,736 balance of its \$20,000 short-term debt from Mr. Lewis by issuing long-term debt.

Staff concludes that authorization to incur up to \$40,640 of long-term debt to complete system improvements on Well#16 is lawful and within the corporate powers of the applicant. Staff further concludes that such authorization would be compatible with the public interest, consistent with sound financial practices and not impair Clear Springs' ability to provide service if: (1) the Commission authorizes an operating income no less than that recommended by Staff in

the pending rate case; and (2) the \$16,736 short-term debt is converted to equity or there is an equity infusion providing an equivalent effect.

Staff recommends granting authorization to borrow an amount not to exceed \$40,640 under the terms and conditions proposed and for the purposes described above contingent upon the two conditions noted in the previous paragraph.

Staff further recommends that the Commission order the Company to file a capital plan that is satisfactory to Staff, by April 30, 2006, to increase its equity to 40 percent of total capital.

Staff further recommends approval of granting liens in favor of the lender as required to secure the borrowings authorized.

Staff further recommends authorizing the Company to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

**FINANCIAL ANALYSIS**

Selected Financial Data  
Including Immediate Effects of the Proposed Debt

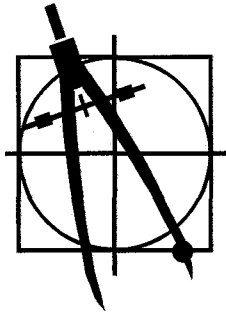
	[A] Staff's recommended revenue and Clear Springs' test year capital structure	[B] Staff's recommended revenue and adjusted capital structure	[C] Staff's recommended revenue and Clear Springs' proposed financing	[D] Staff's recommended revenue, long-term debt and capital structure
1 Operating Income	\$ 20,011	\$ 20,011	\$ 20,011	\$ 20,011
2 Depreciation & Amort.	7,461	7,461	7,461	7,461
3 Income Tax Expense	50	50	50	50
4				
5 Interest Expense	4,822	4,822	9,753	7,717
6 Repayment of Principal	2,124	2,124	3,732	3,068
7				
8				
9 TIER				
10 [1+3] ÷ [5]	4.16	4.16	2.06	2.60
11 DSC				
12 [1+2+3] ÷ [5+6]	3.96	3.96	2.04	2.55
13				
14				
15				
16				
17				
18 Short-term Debt	\$18,860	\$ 2,124	\$3,732	\$ 3,068
19				
20 Long-term Debt	\$72,528	\$ 72,528	\$140,132	\$ 112,224
21				
22 Common Equity	\$47,538	\$ 35,221	\$47,538	\$ 35,221
23				
24 Total Capital	\$138,926	\$ 109,873	\$191,402	\$ 150,513
25				
26				
27				

[A] 2004 Actual financial information including Staff's recommended operating income

[B] 2004 Actual financial information including Staff's recommended operating income; a \$22,553 reduction to equity due to Staff's reduction to net plant int the rate case; a \$6,500 reduction to equity for a draw by owner for truck purchase; and a \$16,736 re-classification of short term debt to equity

[C] 2004 Actual financial information including Staff's recommended operating income and Clear Springs' proposed \$69,212 long-term debt

[D] 2004 Actual financial information including Staff's recommended operating income; a \$22,553 reduction to equity due to Staff's reduction to net plant int the rate case; a \$6,500 reduction to equity for a draw by owner for truck purchase; and a \$16,736 re-classification of short term debt to equity; and Staff's recommended \$40,640 ( \$39,696 LT & \$944 ST) new debt



**Engineering Report  
For Clear Springs Utility Company  
By Dorothy Hains  
Docket No. W-01689A-05-0629 (Rates &  
Financing)  
October 27, 2005**

**EXECUTIVE SUMMARY**

**Recommendations:**

1. Staff recommends that the Company take action to resolve the storage deficiencies of Systems PWS # 02-050 and PWS # 02-048 prior to filing its next rate application. (See §C of the report for discussion and details.)
2. Staff recommends that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future. These rates should be used to calculate the annual depreciation expense for the Company in this application. (See §K and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
3. Staff recommends approval of meter and service line installation charges as shown in Table 8. (See §M of report for discussion and details.)
4. Water testing expenses are based upon participation in the ADEQ Monitoring Assistance Program ("MAP"). Annual testing expenses should be adjusted to \$5,606. (See §J and Tables 7 and 7A for discussion and details.)
5. Staff recommends that the Company reduce its water loss to 10% or less in system PWS #02-008 before filing its next rate case, in the alternative the Company shall demonstrate why it is not reasonable or economical to reduce its water loss to 10% or less. (See §E of report for discussion and details.)
6. Staff recommends the approval of this finance filing. (See §L of report for discussion and details.)
7. Staff recommends removal of the capital cost for Well No. 55-604035 from rate base for purposes of setting rates in this filing. Staff estimates that drilling an 8-inch diameter well similar to the old Well #6 would have cost \$5,148 in 1963. (See §M of report for discussion and details.) .

8. Staff recommends that the Company install a well meter on each system within 12 months of the effective date of the decision in this matter. Staff further recommends that the Company file with Docket Control, as a compliance item, documents showing that the required well meters have been installed within 14 months of the effective date of the decision in this matter. Staff recommends that 1-inch well meters be utilized. Staff estimates that the total installed cost of the three 1-inch meters will be \$1,617. (See §M of report for discussion and details.)

**Conclusions:**

1. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are below 1µg/l, which is below the new arsenic MCL.
2. The Company is not in any Arizona Department of Water Resources (“ADWR”) Active Management Area and is not in subject to ADWR monitoring and reporting requirements.
3. According to the Utilities Division Compliance Section, the Company has no outstanding ACC compliance issues.
4. The Company is in compliance with ADEQ water quality standards and delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §G of report for discussion and details.)

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**ENGINEERING REPORT  
FOR  
CLEAR SPRINGS UTILITY COMPANY, INC. – WATER DIVISION  
DOCKET NO. W-01689A-05-0629 (RATES & FINANCING)**

**A. PURPOSE OF REPORT**

This report was prepared in response to the application of Clear Springs Utility Company – Water Division. (“Clear Springs” or “Company”) for a rate increase and authorization to incur debt. An inspection and evaluation of the Company’s water systems was conducted by Dorothy Hains, Utilities Engineer, in the accompaniment of Steve Siegfried, the Company’s Field Manger and Jim Cramer, an on-site field operator, on October 12, 2005.

**B. LOCATION OF SYSTEM**

The Company is located approximately 26 miles west of Willcox along Highway 191, in Cochise County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission regulated companies in Cochise County and in the immediate area. The Company serves an area approximately thirty seven square miles in size that includes all or a portion of Sections 4, 9, 15, 22, 23, 26, 27, 28 and 33 of Township 16 South, Range 24 East, Sections 29, 30, 31, 32 and 33 of Township 16 South, Range 25 East, Sections 4, 9, 10, 13, 14, 15 and 16 of Township 17 South, Range 24 East, Sections 4, 5, 13, 18, 19, 23, 24, 25, 26, 30, 31 and 35 of Township 17 South, Range 25 East, Sections 1, 3, 4, 10, 11, 12, 14 and 22 of Township 18 South, Range 24 East, and Sections 6, 17, 18 of Township 18 South, Range 25 East.

**C. DESCRIPTION OF SYSTEM**

**I. System Description**

The Company owns and operates five individual water systems that consist of seven well sites. The Company serves approximately 580 metered customers; the majority of which are residential. Exhibits 3A, 3B and 3C are schematic drawings of the water systems. A detailed listing of the Company’s water system facilities are as follows:

Table 1 Well Data

PWS # 02-	Well Name	ADWR ID No. (55- xxxxxx)	Location	Pump (HP)	Yield (GPM)	Casing Size (in inches) & Depth (in ft)	(Meter Size inches)	Year drilled
--------------	-----------	-----------------------------------	----------	--------------	----------------	---	---------------------------	-----------------



008	Well #16 <sup>1</sup>	604034	Treasure Road & HWY 191	75	450	12"x500'	6	1970
008	Well #18	502128	Lansing Road	120	300	16"x800'	6	1982
008	Well #5	603877	Place Road	30	180	16"x700'	4	1964
049	Well #6	588414	Euclid between Central and Topaz	7½	42	8"x505'	2	2001
051	Well #9	603882	lot between Palm, Skyline, Lehigh and March	5	25	8"-6"x675'	N/A	1970
050	Well #7	603880	the lot between Treasure Road, Harford, Central, and Lehigh	5	18	6"x560'	N/A	1969
048	Well #3	603879	the lot between Sherwood Road, Topaz, Arbor, and Hagan.	5	25	6"x442'	N/A	1966
				TOTAL:	1,040 <sup>2</sup>			

## Notes:

1. The well pump equipped on Well No.16 was damaged in July 2003 and has been out of service since that time, the Company is seeking a WIFA loan to replace the damaged well pump through this filing.
2. Currently the total well flow rate is only 590 gpm.
3. In 2001, Well No. 6 (DWR No. 55-604035) went dry and the Company drilled a new well to replace the old well in the same year at the same well site.

Table 1A Plant Not Used and Useful

PWS # 02-	Well Name	ADWR ID No. (55- xxxxxx)	Location	Pump (HP)	Yield (GPM)	Casing Size (in inches) & Depth (in ft)	Year disconnected from service	Year drilled
049	Well #6 <sup>1</sup>	604035	Euclid between Central and Topaz	10	100	6"-8"x400'	2001	1963
				TOTAL:	100			

## Notes:

1. The Company does not plan to repair this well and return it to service in the near future.

Table 2 Storage Tank

Capacity (Gallons)	Quantity	Location
100,000	1	Well Site #18
12,500	1	Well Site #6
12,500	1	Well Site #9
1,000	1	Well Site #7
Total: 126,000 gallons		

Table 3 Distribution Mains

Diameter (inches)	Material	Length (feet)
2	Galvanized	200
2	polyvinyl chloride ("PVC")	871
3	PVC	360
3	asbestos cement ("AC")	10,698
4	PVC	3,050
4	AC	10,520
6	PVC	3,040
6	AC	34,195
8	PVC	180
8	AC	5,650
10	AC	6,985
12	AC	200

Table 4 Meters

Size (inches)	Quantity
5/8 x 3/4	535
3/4	5
1	16
1½	8
2	3
3 (Comp)	1
Total	568

## II. System Analysis

Three systems (PWS #s 02-008, 02-049 and 02-051) have adequate production and storage capacity to support their existing customer bases. However, the remaining two systems (PWS #s 02-050 and 02-048) do not have adequate storage capacity. The Company has several options available to it to address this deficiency, the Company may obtain additional production or storage or it may wish to consider interconnecting the deficient systems with each other or adjacent systems. These two systems serve less than 20 connections and are not expected to experience any growth and to the best of Staff's knowledge the identified deficiency has not resulted in any disruption of service. Therefore, Staff recommends that the Company take action to resolve the storage deficiencies of Systems PWS # 02-050 and PWS # 02-048 prior to filing its next rate application.

### D. ARSENIC

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") or parts per billion ("ppb") to 10 µg/l. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis provided by the Company indicates that the arsenic levels in the wells used by the Company are below 1 µg/l, which is below the new arsenic MCL.

### E. WATER USAGE

Tables 5A through 5F summarize water usage in the Company's CC&N area. Exhibits 4A through 4F, are graphs that show water consumption data in gallons per day per connection for the combined systems and each individual system for the period of January 2004 through December 2004.

Table 5A Water Usage in Combined Systems

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 04	555	2,684,000	3,339,000	0	156
Feb 04	555	2,431,000	2,675,000	0	156
Mar 04	556	2,185,000	2,943,000	0	127
Apr 04	557	3,327,000	3,643,000	0	199
May 04	557	4,224,000	4,898,000	0	245
Jun 04	563	6,220,000	7,086,000	0	368
Jul 04	563	5,849,000	6,439,000	0	335
Aug 04	566	4,025,000	4,591,000	0	229
Sep 04	567	4,161,000	4,845,000	0	245
Oct 04	566	3,844,000	3,791,000	0	219

Clear Springs Utility Company – Water Division

Docket No. W-01689A-05-0629

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Nov 04	566	3,217,000	3,670,000	0	189
Dec 04	567	2,259,000	2,700,000	0	129
Total		44,426,000	50,620,000	0	
Average					224

The calculated overall water loss was 12.24% during the test year.

Table 5B Water Usage in **PWS #02-008**

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 04	524	2,496,650	3,148,000	0	154
Feb 04	524	2,287,080	2,522,000	0	156
Mar 04	525	1,996,680	2,753,000	0	123
Apr 04	526	2,999,920	3,314,000	0	190
May 04	526	3,763,040	4,438,000	0	231
Jun 04	532	5,549,190	6,415,000	0	348
Jul 04	532	5,281,240	5,871,000	0	320
Aug 04	535	3,642,360	4,206,000	0	220
Sep 04	536	3,752,070	4,437,000	0	233
Oct 04	535	3,515,130	4,078,000	0	212
Nov 04	535	2,962,730	3,463,000	0	185
Dec 04	536	2,138,570	2,577,000	0	129
Total		40,381,660	47,222,000	0	
Average					215

The calculated water loss in PWS #02-008 was 14.49% during the test year.

Table 5C Water Usage in **PWS #02-049**

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 04	16	77,570	82,000	0	156
Feb 04	16	66,610	73,000	0	149
Mar 04	16	65,140	67,000	0	131
Apr 04	16	129,940	132,000	0	271
May 04	16	196,100	196,000	0	395
Jun 04	16	311,670	312,000	0	649
Jul 04	16	263,090	263,000	0	530
Aug 04	16	166,720	169,000	0	336
Sep 04	16	201,260	201,000	0	419
Oct 04	16	180,270	180,000	0	363
Nov 04	16	121,510	123,000	0	253
Dec 04	16	60,800	63,000	0	123
Total		1,840,680	1,861,000	0	

Average					332
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The calculated water loss in PWS #02-049 was 1.1% during the test year.

**Table 5D Water Usage in PWS #02-048**

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 04	3	17,330	17,000	0	186
Feb 04	3	13,390	13,000	0	159
Mar 04	3	11,290	11,000	0	121
Apr 04	3	18,930	19,000	0	210
May 04	3	31,110	31,000	0	335
Jun 04	3	58,970	59,000	0	655
Jul 04	3	51,740	52,000	0	556
Aug 04	3	19,750	20,000	0	212
Sep 04	3	17,030	17,000	0	189
Oct 04	3	14,200	14,000	0	153
Nov 04	3	19,220	19,000	0	214
Dec 04	3	6,770	7,000	0	73
Total		279,730	279,000	0	
Average					272

The calculated water loss in PWS #02-048 was 0 % during the test year.

**Table 5E Water Usage in PWS #02-050**

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 04	5	8,070	8,000	0	52
Feb 04	5	9,760	10,000	0	70
Mar 04	5	11,660	12,000	0	75
Apr 04	5	24,230	24,000	0	162
May 04	5	41,380	41,000	0	267
Jun 04	5	54,210	54,000	0	361
Jul 04	5	47,730	48,000	0	308
Aug 04	5	33,770	34,000	0	218
Sep 04	5	51,270	51,000	0	342
Oct 04	5	26,360	26,000	0	170
Nov 04	5	21,060	21,000	0	140
Dec 04	5	8,520	9,000	0	55
Total		338,020	338,000	0	
Average					197

The calculated water loss in PWS #02-050 was 0 % during the test year.

Table 5F Water Usage in **PWS #02-051**

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 04	7	84,420	84,000	0	389
Feb 04	7	57,240	57,000	0	292
Mar 04	7	1,00,380	100,000	0	463
Apr 04	7	154,140	154,000	0	734
May 04	7	192,290	192,000	0	886
Jun 04	7	245,800	246,000	0	1,170
Jul 04	7	204,950	205,000	00	944
Aug 04	7	162,060	162,000	0	747
Sep 04	7	139,200	139,000	0	663
Oct 04	7	107,730	108,000	0	496
Nov 04	7	92,130	92,000	0	439
Dec 04	7	44,300	44,000	0	204
Total		1,584,640	1,583,000	0	
Average					657

The calculated water loss in PWS #02-051 was 0 % during the test year.

#### **I. Water Sold**

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 224 gallons per day (“gpd”) per customer, a high use of 368 gpd per customer and a low use of less than 127 gpd per customer. Individually, the calculated highest use is 1,170 gpd per customer in PWS # 02-051 and the lowest is 52 gpd per customer in PWS #02-050. The highest total monthly use occurred in June, when total of 6,220,000 gallons were sold to 563 customers. The lowest total monthly use occurred in March, when 2,185,000 gallons were sold to 556 customers.

#### **II. Non-account Water**

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Overall non-account water for the Company was calculated to be 12.24 percent during the test year, which exceeds acceptable limits. It appears that all systems except PWS #02-008 has water loss within the acceptable limits. Therefore, Staff recommends that the Company reduce its water loss in PWS #02-008 to 10% or less before filing its next rate case, in the alternative the Company shall demonstrate why it is not reasonable or economical to reduce its water loss to 10% or less.

**F. GROWTH PROJECTION**

Based on the service meter data contained in these reports, the number of customers increased from 441 at the end of 1994 to 562 by the end of 2004, with an average growth rate of 12 customers per year. Based on the linear regression analysis, the Company could have approximately 653 customers by the end of 2011. The following table summarizes actual and projected growth in the Company's existing certificated service area.

Table 6 Actual and Projected Growth

Year	Nos. of Customers	
1994	441	Reported
1995	448	Reported
1996	475	Reported
1997	492	Reported
1998	510	Reported
1999	516	Reported
2000	526	Reported
2001	530	Reported
2002	543	Reported
2003	554	Reported
2004	562	Reported
2005	581	Estimated
2006	593	Estimated
2007	605	Estimated
2008	617	Estimated
2009	629	Estimated
2010	641	Estimated
2011	653	Estimated

**G. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**

Staff received a compliance status reports from ADEQ dated September 28, 2005, in which ADEQ stated that the systems (PWS #02-050, 02-051, 02-049 & 02-008) have no major deficiencies. ADEQ also states that ADEQ has determined that those systems are currently delivering water that meets water quality stands required by Arizona Administrative Code, Title 18, Chapter 4. System PWS #02-048 is not regulated by ADEQ yet, because it is a semi-public system.

**H. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

Clear Springs Water Company is not in any ADWR Active Management Area. Therefore, the

Company is not required to comply with ADWR's monitoring and reporting requirements.

#### **I. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE**

According to the Utilities Division Compliance Section, the Company has no outstanding ACC compliance issues.

#### **J. WATER TESTING EXPENSES**

Clear Springs is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, nitrates, and bacteria.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. MAP fees were calculated from the ADEQ MAP rules.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and two points of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table 7 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount shown in Tables 7 and 7A, which totals **\$ 5,606**.



Table 7 Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years		Total 3 year cost (\$)		Annual <sup>1</sup> Cost (\$)
PWS # 02-		008	049	008	049	
Bacteriological – monthly	\$15	72	36	1,080	540	540
Inorganics (& secondary)	\$240	1	1	240	240	160
Radiochemical – (1/ 4 yr)	\$55					MAP
IOC's, SOC's, VOC's						MAP
Nitrites	\$15					MAP
Nitrates – annual	\$25	72	36	1,800	900	900
Asbestos – per 9 years	\$180					MAP
Lead & Copper – annual	\$25	30	15	750	375	375
MAP fees (annual)						1,636 <sup>2</sup>
Total						3,611

### Note

#1: The Costs are combination of expenses of System (PWS #02-008) and System (PWS #02-049).

#2: The 2005 MAP invoice for System (PWS #02-008) was \$1,353.31 and invoice for System (PWS #02-049) was \$283.12.

Table 7A Water Testing Cost

[illegible]

Total								1,995
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**Note**

- #1: The Costs are combination of expenses of System (PWS #02-050), System (PWS #02-051) and System (PWS #02-048).
- #2 All of three systems are not in MAP program. However, Staff uses MAP Annual Sampling Fee Worksheet to compute these three systems and found \$244.49 for System #02-051, \$262.42 for System #02-050 and \$258.28 for system #02-048. (MAP Annual Sampling Fee formula is: \$250 + # of connections x \$2.07.

Total estimated annual water test cost is \$5,606 that consists of \$3,611 and \$1,995.

**K. DEPRECIATION RATES**

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company in this application. It is recommended that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future.

**L. Financing**

The Company is requesting approval to incur debt in the amount of \$69,212 which will be used to recover expenses incurred in 2004 to replace the well pump in Well #5 and to replace the well pump in Well #16. The old well pump in Well No.16 was damaged in July 2003 and has been out of service since that time. The Company is seeking a WIFA loan to replace the damaged well pump through this filing. Detailed project descriptions are listed in the table below:

**I. 2004 completed project**

	Cost (\$)	comments
Well #5 well pump motor repair	309.90	Note 1
Well #5 well pump repair	5,070.91	Note 1
Well #5 well pump repair	280.00	Note 1
Parts from Danna Kepner	8,370.07	Note 1
Parts from Danna Kepner	122.24	Note 1
Parts from Danna Kepner	43.81	Note 1
Parts from Apache Hardware	29.42	Note 1
Parts from Apache Hardware	17.51	Note 1
Parts from Apache Hardware	9.07	Note 1
Parts from Apache Hardware	11.16	Note 1
Rental from Sun State Equipment	72.01	Note 1
Rental from Sun State Equipment	72.01	Note 1
Installation of 1,420' of 6" PVC line in PWS #02-008 system	13,774.00	Note 1

Construction inspection by Southwestern Utility	805.00	Note 1
Drafting As-built plans	1,200.00	Note 1

**Sub-total 28,571.67**

## II. Work at Well #16 Site

	Cost (\$)	comments
Replace one 50-HP turbine pump and a motor (460 V, 3Ø)	7,680.00	Note 2
500' of #4 sub-cable for conductor cable	2,240.00	Note 2
520' of 4" black T&C pump pipe	4,250.00	Note 2
Three 4" check valves	1,242.00	Note 2
One 500' air line	500.00	Note 2
One well plate	860.00	Note 2
4" fitting for hook-up	1,580.00	Note 2
Two 120 gal pressure tanks	1,300.00	Note 2
One variable speed drive and transducer controller	9,661.00	Note 2
Pulling existing pump	2,500.00	Note 2
Labor for installation	2,600.00	Note 2
Tax	2,727.38	Note 2
Construction inspection by Southwestern Utility	2,000.00	Note 2

**Sub-total 39,140.38**

**III. Possible Proposal Increase 1,500 Note 2**

**Total 69,212.05**

### Notes:

- #1. The work had been completed, Staff inspected the Well #5 pump replacement during the field inspection.
- #2 The jobs are proposals.

Staff believes that these estimated costs are reasonable and appropriate. However, Staff has not made a determination of the capital improvements for Well #16 as "used and useful" at this time, but defers this determination until the Company files its next rate application.

## M. OTHER ISSUES

### I. Service Line and Meter Installation Charges

The Company is proposing to revise its meter and service line installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's experience of what are reasonable and customary charges. Therefore, Staff recommends

approval of meter and service line installation charges proposed by the Company as shown in Table 8.

Table 8. Service Line and Meter Installation Charges

Meter Size	Current Charges	Proposed Charges	Staff Recommendation
5/8 x3/4-inch	\$450	\$550	\$550
3/4-inch	\$450	\$550	\$550
1-inch	\$550	\$650	\$650
1-½-inch	\$1,305	\$875	\$875
2-inch (turbo)	\$1,305	\$1,400	\$1,400
2-inch (compound)	\$1,900	\$2,000	\$2,000
3-inch (turbine)	\$1,850	\$1,900	\$1,900
3-inch (compound)	\$2,490	\$2,600	\$2,600
4-inch (turbine)	\$2,860	\$3,200	\$3,200
4-inch (compound)	\$3,615	\$4,100	\$4,100
6" (turbine)	\$5,275	\$5,800	\$5,800
6-inch (compound)	\$6,810	\$7,200	\$7,200

## II. Curtailment Tariff

The Company has had an approved Curtailment Tariff in effect since August 6, 2001.

## III. Well #6

Because Well #6 (ADWR No. 55-604035) went dry, it has been taken out of service and is no longer providing service.<sup>1</sup> The Company installed a replacement well (ADWR No. 55-588414) in 2001 which is currently serving customers. Staff recommends removal of the capital cost for Well No. 55-604035 from rate base for purposes of setting rates in this filing. Staff estimates that drilling an 8-inch diameter well similar to the old Well #6 would have cost \$5,148 in 1963.

## IV. Well Meters

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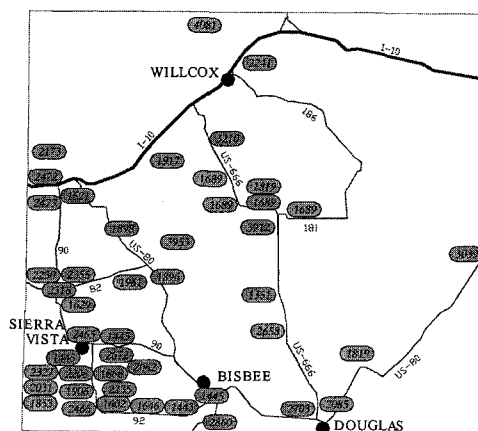
<sup>1</sup> The old Well #6 which was drilled in 1963 to a depth of 400 feet was equipped with an 8-inch diameter casing.

Staff believes that the calculated water loss of zero for PWS # 02-048, 02-050 and 02-051 represents an artificial number since there are no well meters installed on these systems. Staff recommends that the Company install a well meter on each system within 12 months of the effective date of the decision in this matter. Staff further recommends that the Company file with Docket Control, as a compliance item, documents showing that the required well meters have been installed within 14 months of the effective date of the decision in this matter. Because the three wells (one for each system) are low production wells, Staff recommends that 1-inch well meters be utilized. Staff estimates that the total installed cost of the three 1-inch meters will be \$1,617.<sup>2</sup>

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<sup>2</sup> Staff's estimated cost includes a meter cost of \$251 and an installation cost of \$288 per well.

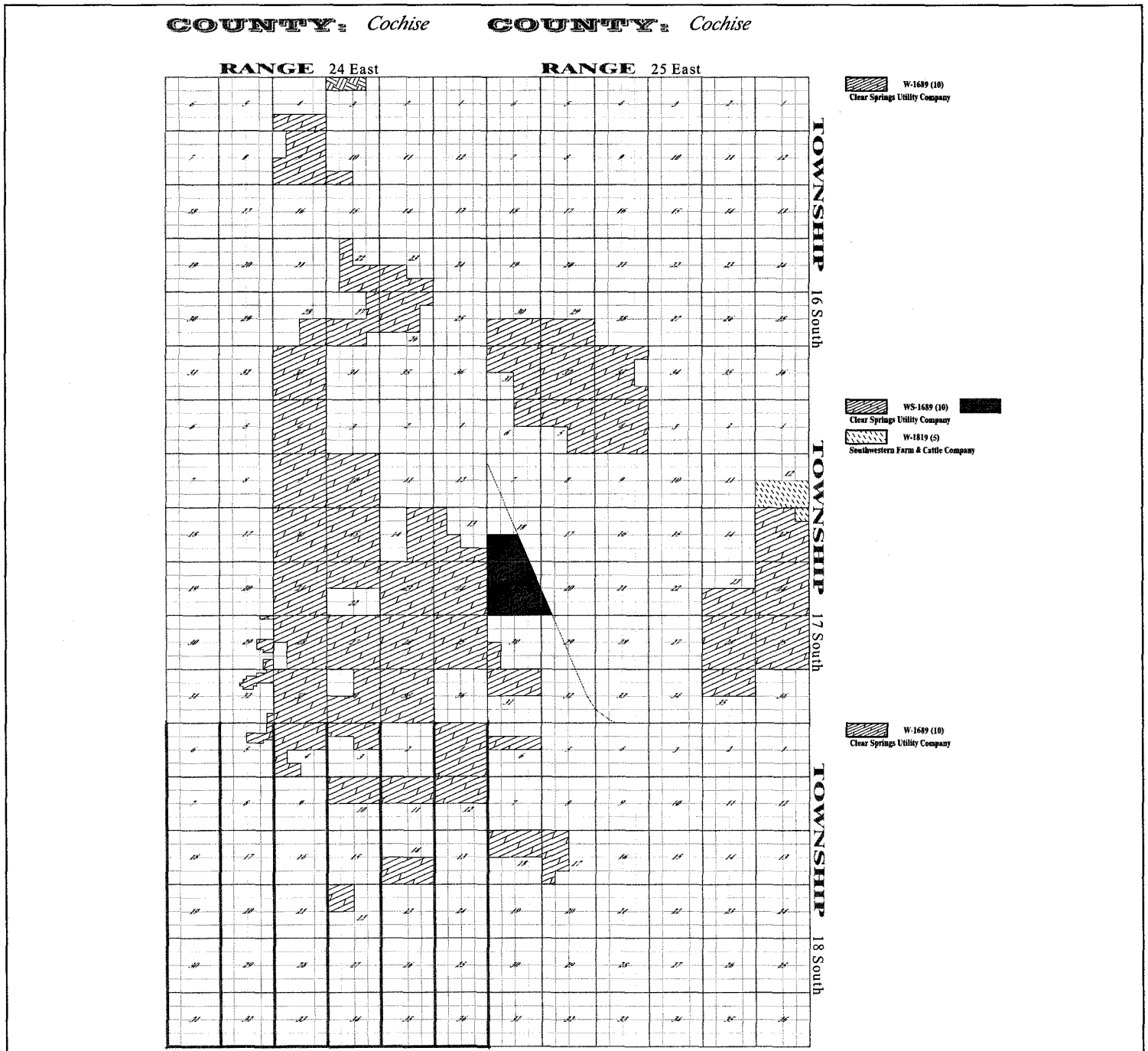
## Clear Springs' Certificate Service Area



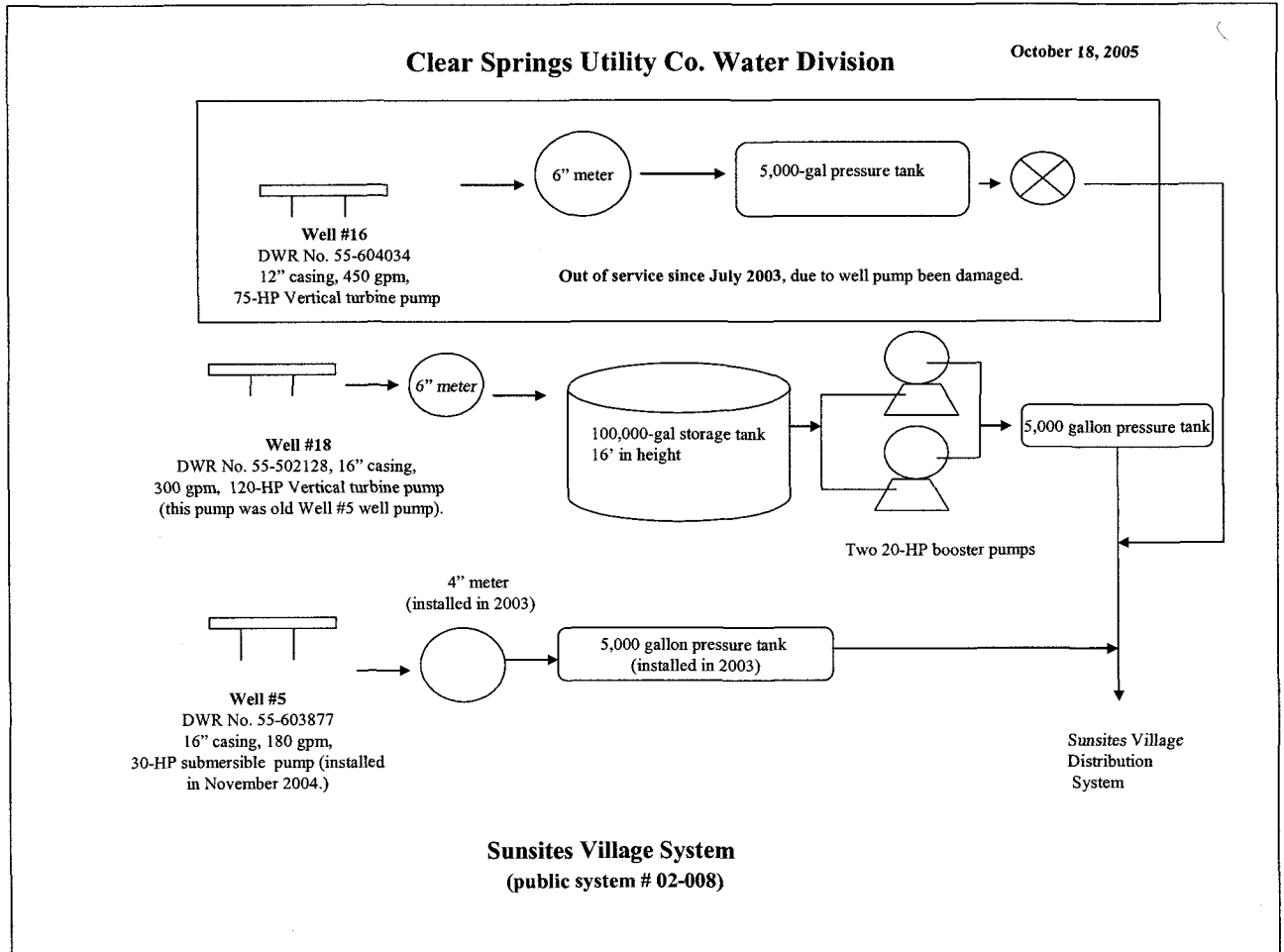
- |      |  |      |  |
|------|--|------|--|
| 2473 | ANDERSON WATER COMPANY, INC.             | 2031 | INDIADA WATER COMPANY, INC.              |
| 232  | ANTELOPE RUN WATER COMPANY               | 1961 | LUCKY HILLS WATER COMPANY                |
| 1445 | ARIZONA WATER COMPANY                    | 2472 | MESCAL LAKES WATER SYSTEMS, INC.         |
| 3953 | BACHMANN SPRINGS UTILITY COMPANY         | 1646 | MIRACLE VALLEY WATER COMPANY, INC.       |
| 2465 | BELLA VISTA WATER COMPANY                | 2703 | MONTE VISTA WATER COMPANY, L.L.C.        |
| 1039 | BROOKE WATER L.L.C.                      | 2230 | MUSTANG WATER COMPANY                    |
| 3210 | C-D OASIS WATER COMPANY                  | 2638 | MWC, INC.                                |
| 1689 | CLEAR SPRINGS UTILITY COMPANY            | 2860 | NACO WATER COMPANY, L.L.C.               |
| 2672 | CLOUD NINE WATER COMPANY, INC.           | 1602 | NICKSVILLE WATER COMPANY, INC.           |
| 1868 | COCHISE WATER COMPANY                    | 1443 | PALOMINAS DEVELOPMENT COMPANY            |
| 1629 | CORONADO ESTATES WATER COMPANY           | 1853 | PARKER SPRINGS WATER COMPANY             |
| 2083 | CORONADO WATER COMPANY                   | 2208 | PUEBLO DEL SOL WATER COMPANY             |
| 2316 | CRYSTAL WATER COMPANY                    | 2062 | SOUTHLAND UTILITIES COMPANY, INC.        |
| 1917 | DRAGOON WATER COMPANY, INC.              | 1819 | SOUTHWESTERN FARM AND CATTLE COMPANY     |
| 1906 | EAST SLOPE WATER COMPANY                 | 1521 | SUE JUAN WATER COMPANY                   |
| 1351 | ELFRIDA DOMESTIC WATER USERS ASSOCIATION | 2355 | SULGER WATER COMPANY #2                  |
| 1808 | F & F WATER COMPANY                      | 3912 | SUNIZONA WATER COMPANY                   |
| 2341 | HIDDEN VALLEY WATER COMPANY              | 2173 | WILLOW LAKES PROPERTY OWNERS ASSOCIATION |
| 1826 | HOLIDAY WATER COMPANY                    | 4081 | WINCHESTER WATER COMPANY, LLC            |
| 2235 | HORSESHOE RANCH WATER COMPANY            |      |  |

EXHIBIT 2

LOCATION OF CLEAR SPRINGS WATER COMPANY SERVICE AREA



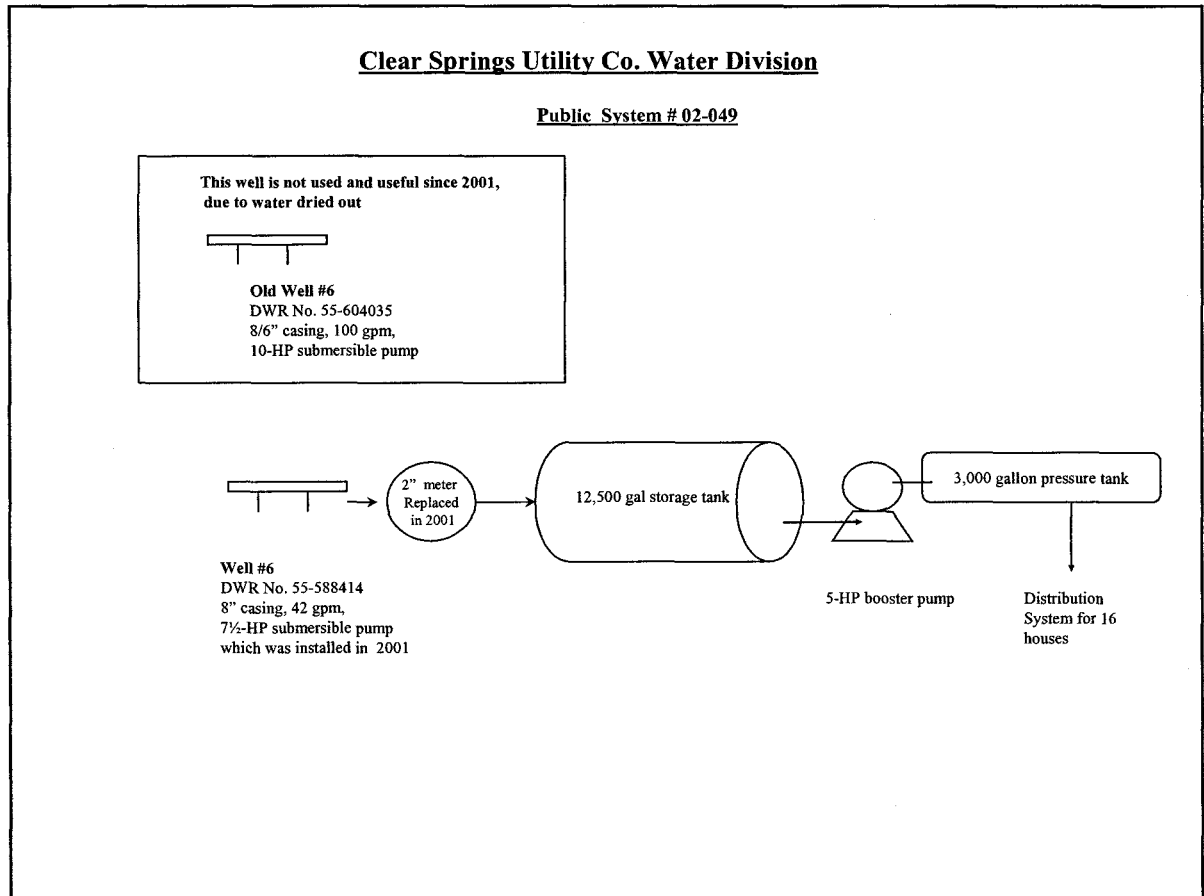
# SYSTEMATIC DRAWING





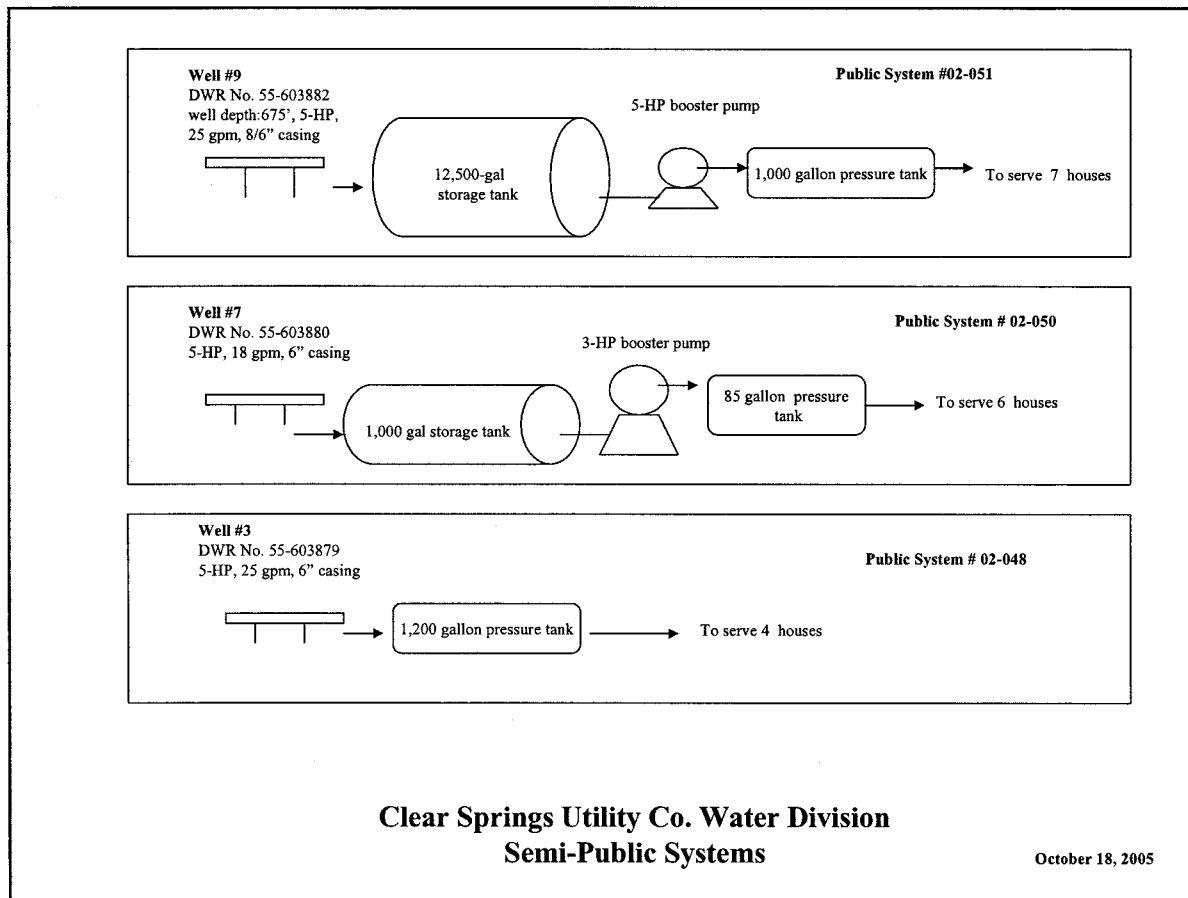
**EXHIBIT 3B**

**SYSTEMATIC DRAWING**



**EXHIBIT 3C**

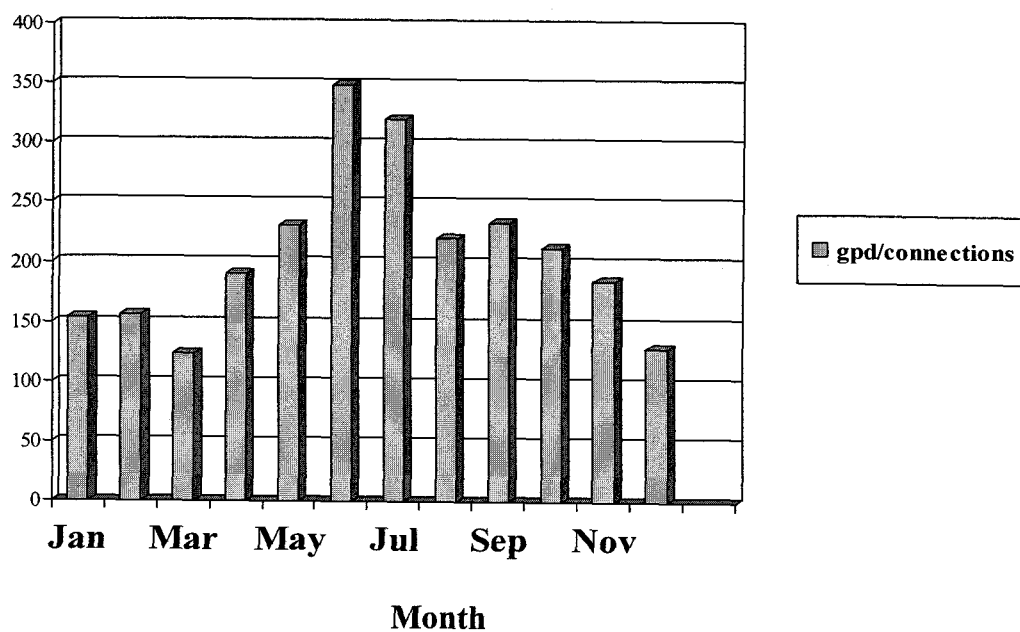
**SYSTEMATIC DRAWING**



**EXHIBIT 4A**

**WATER USAGE ON THE CLEAR SPRINGS WATER COMPANY SERVICE AREA**

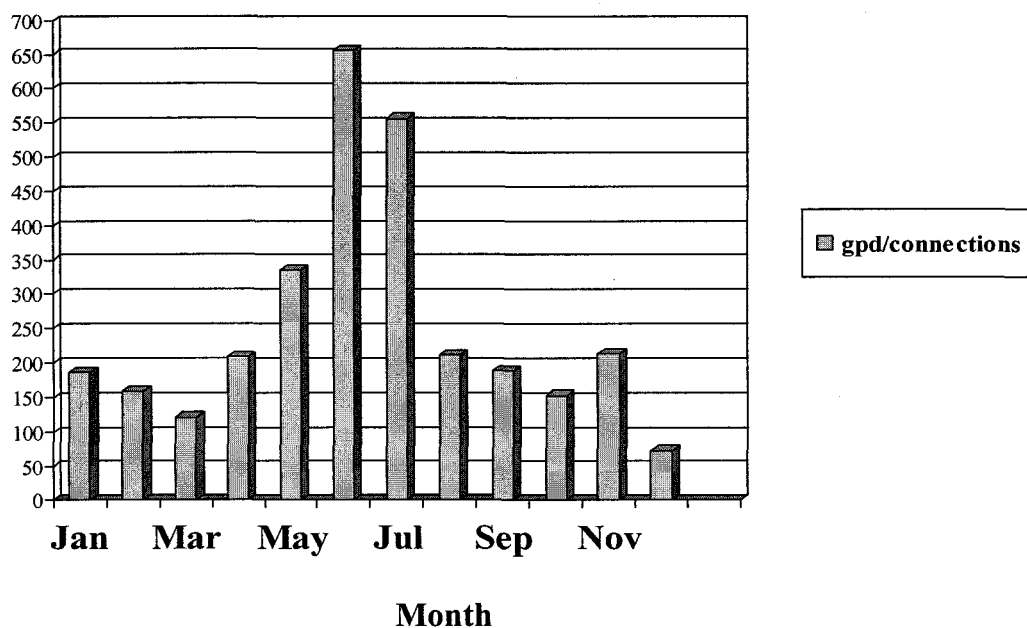
**Clear Springs Utility Co. Water Division (PWS #02-008) System Water Usage  
During Test Year 2004**



**EXHIBIT 4B**

**WATER USAGE ON THE CLEAR SPRINGS WATER COMPANY SERVICE AREA**

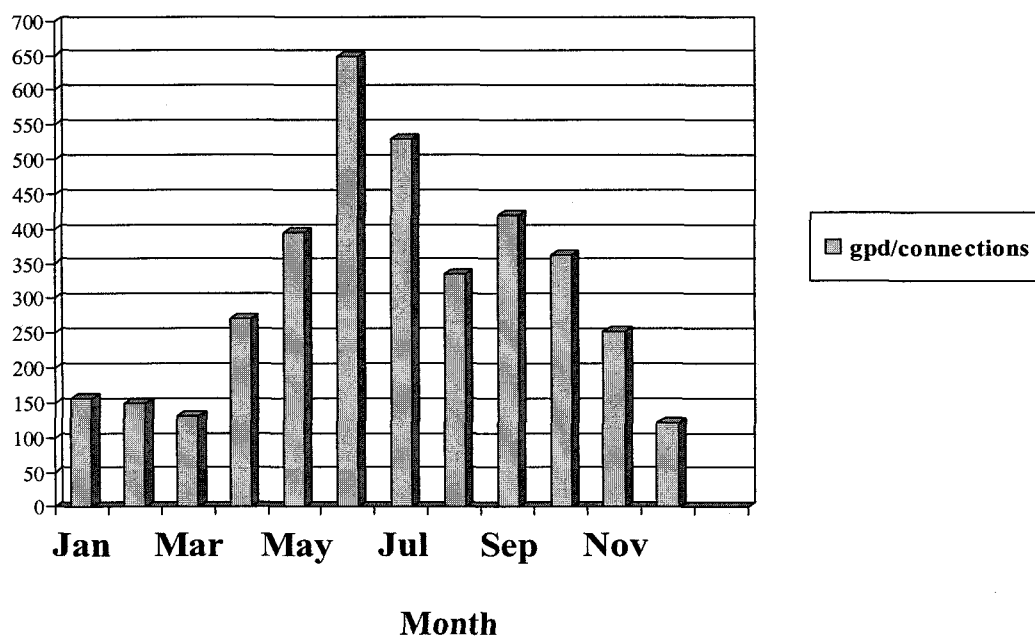
**Clear Springs Utility Co. Water Division (PWS #02-048) System Water Usage  
During Test Year 2004**



**EXHIBIT 4C**

**WATER USAGE ON THE CLEAR SPRINGS WATER COMPANY SERVICE AREA**

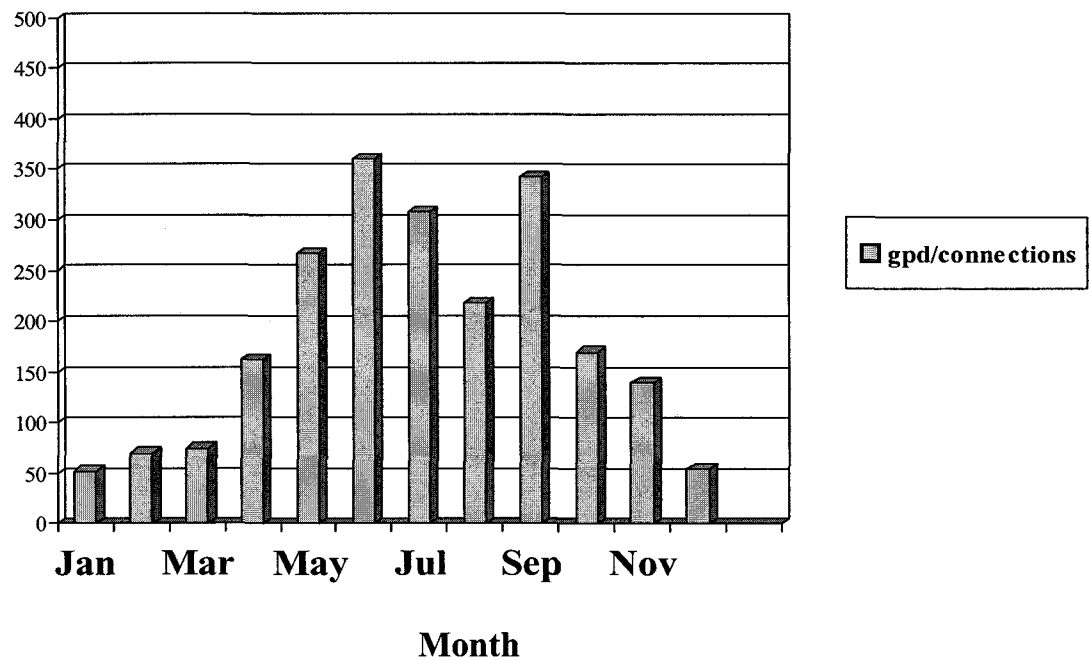
**Clear Springs Utility Co. Water Division (PWS #02-049) System Water Usage  
During Test Year 2004**



**EXHIBIT 4D**

**WATER USAGE ON THE CLEAR SPRINGS WATER COMPANY SERVICE AREA**

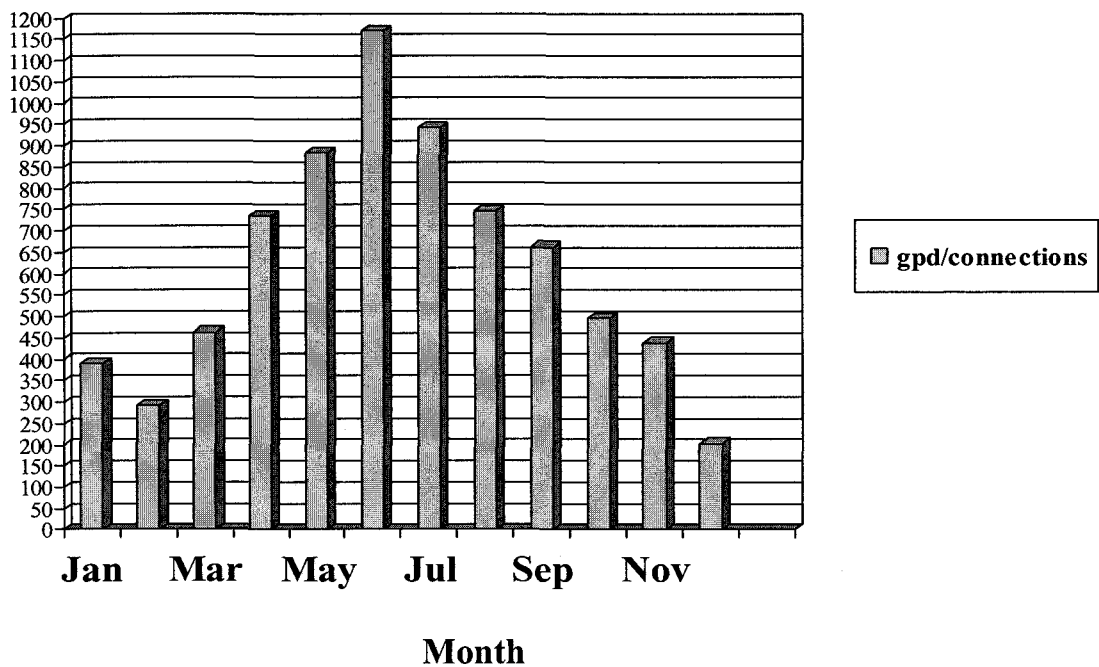
**Clear Springs Utility Co. Water Division (PWS #02-050) System Water Usage  
During Test Year 2004**



**EXHIBIT 4E**

**WATER USAGE ON THE CLEAR SPRINGS WATER COMPANY SERVICE AREA**

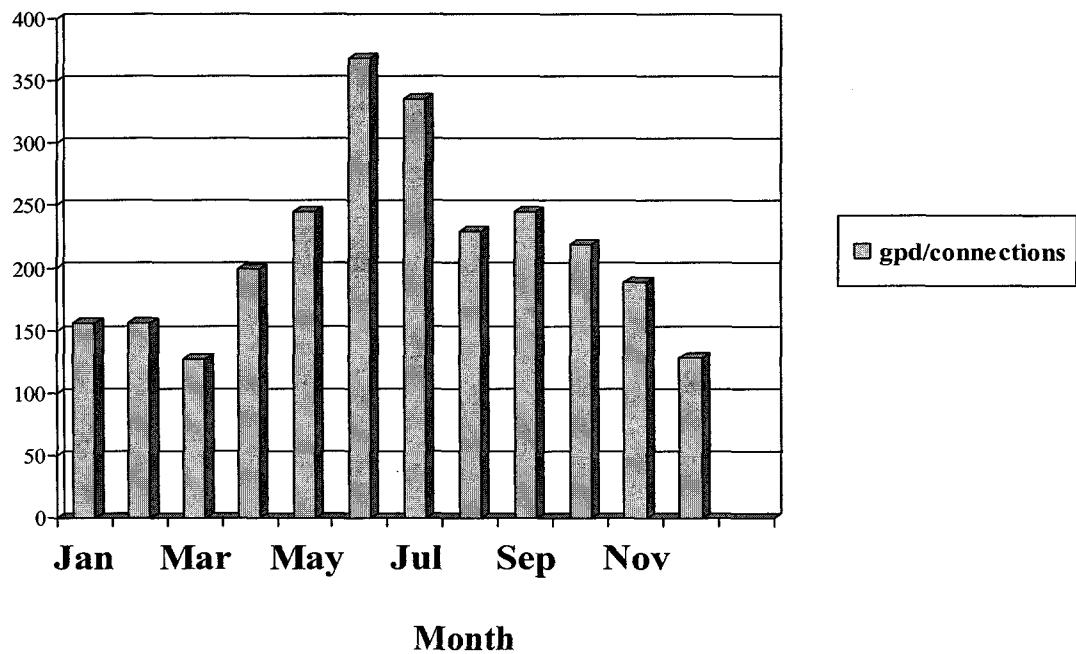
**Clear Springs Utility Co. Water Division (PWS #02-051) System Water Usage  
During Test Year 2004**



**EXHIBIT 4F**

**WATER USAGE ON THE CLEAR SPRINGS WATER COMPANY SERVICE AREA**

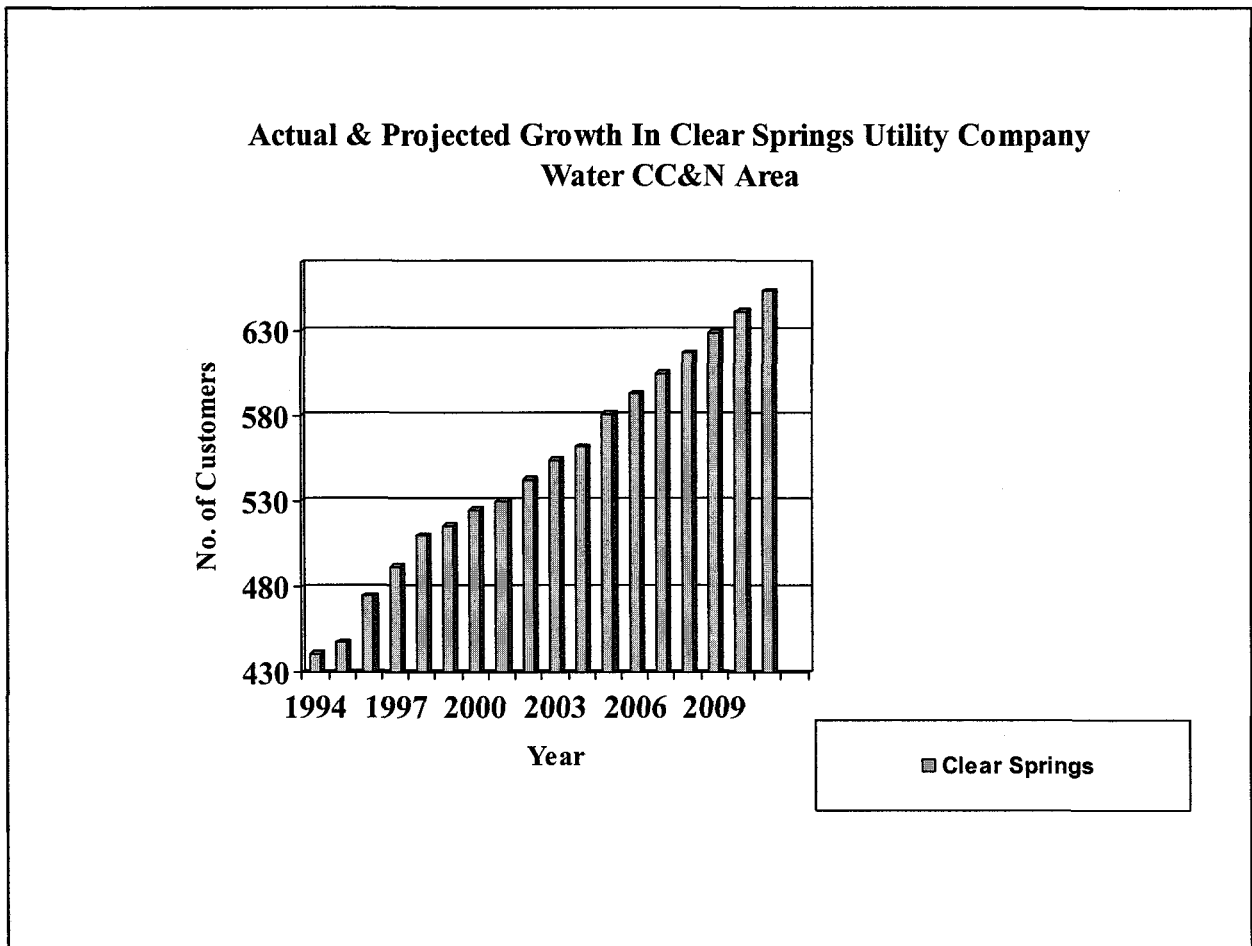
**Clear Springs Utility Co. Water Division Combined All  
System Water Usage  
During Test Year 2004**





**EXHIBIT 5**

**ACTUAL AND PROJECTED GROWTH IN CLEAR SPRINGS WATER COMPANY  
SERVICE AREA**



**Exhibit 6****Water Depreciation Rates**

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----